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TREASURY FOR FRANCOIS BOYE

E.O. 12958: N/A
TAGS: ETRD AGOA EINV ECON MA
SUBJECT: MADAGASCAR: GARMENT MAKERS SHOUT FOR AGOA ASSURANCES AS ORDERS DECLINE

REF: A) ANTANANARIVO 451 B) ANTANANARIVO 494

¶1. (SBU) Summary: Madagascar's garment industry is suffering the effects of the political crisis that began in January and is already showing signs of further collapse due to the uncertainty of AGOA renewal at the end of the year. Commercial chambers and businesses have successfully educated members of the transition authority (HAT) and other key political actors on the high stakes to be lost - tens of thousands of jobs -- if Madagascar fails to show continual progress towards establishing the rule of law by year-end. These political leaders have responded with efforts aimed at showing they understand the importance of AGOA, but unfortunately, they haven't delivered any progress yet on the road to returning to constitutional order. Some local chambers and businesses plan to attend the AGOA Forum in Nairobi August 4-6 to raise awareness of Madagascar's plight among fellow AGOA nations and the USG. End summary.

Garment Exports Decline

¶2. (SBU) Madagascar garment exports to the U.S. under the African Growth and Opportunity Act (AGOA) were 26 percent lower in May 2009 than in May 2008. Exports from January through May 2009 were 15.6 percent lower than in the same period of 2008. Garment manufacturers are screaming for assurances that AGOA will be extended, as they see their orders steadily decline. While some are actively moving production and equipment offshore, most remain in wait-and-see mode, pending a clearer sense later this year of what the interagency recommendation to the President will be. Most have orders already through September; the impact of AGOA uncertainty will be strong, however, beginning in the last quarter of the year, while a loss of AGOA would be devastating in 2010 as most businesses would significantly downsize or close their operations. Following is a discussion of business' and the HAT's strategies for saving AGOA, along with a synopsis of the status of the companies with U.S. investment and the other main suppliers.

AGOA Forum in Nairobi

¶3. (SBU) The presidents of AMCHAM and the Export Processing Zone (EPZ) Association, along with representatives of affected businesses plan to attend the AGOA Forum in Nairobi August 4-6. The HAT itself is not invited. AMCHAM would like to present a petition to Secretary Clinton that already has been signed by thousands of Malagasy workers pleading for the maintenance of AGOA benefits. [Note: We have encouraged AMCHAM to focus its lobbying efforts solely on the Malagasy authorities, but it is becoming increasingly desperate and is now seeking to attack the problem from all angles. End note.] The Corporate Council on Africa may host a side session

on Madagascar during the forum to provide interested businesses an opportunity to voice their concerns.

HAT's Response to AGOA Threat and Business Pressures

¶4. (SBU) On June 12, AMCHAM and the EPZ Association met with the HAT's economic commission to urge them to seek a political solution soon to save AGOA. The EPZ Association has raised the issue with many HAT ministers, as well as members of the four movements involved in the SADC/AU/UN negotiation process (ref A). On June 19, the seven vice presidents of the HAT signed a letter to President Obama announcing the creation of a technical commission composed of HAT and business representatives to discuss the importance of AGOA and stating that they have the political will to return Madagascar to constitutionality and to strengthen the rule of law (ref B). In early July, AMCHAM and the EPZ, in conjunction with the various unions, began a campaign to gather workers' names on a petition to be presented to each of the four Malagasy political movements involved in the negotiation process. Although these chambers have succeeded in raising awareness of AGOA among Malagasy political actors, unfortunately these actors have yet to deliver progress towards re-establishing constitutional order: a consensual transition government capable of scheduling and organizing legitimate legislative and presidential elections is not yet in place, nor is there agreement yet on its shape or timetable.

Firms with U.S. Investment

¶5. (SBU) MKLEN (owned by Jordache) (produced 16% of AGOA exports to the US from Madagascar in May): MKLEN has orders up until October and may be in the clear until the end of the year. Its Vice-President has personally lobbied the Ambassador and appears quite concerned about losing its Malagasy investment worth over USD

30 million. They are reluctant to take orders for post year-end and risk paying the duty. However, MKLEN is in a more favorable position than most of the other factories here because 1) Jordache has its own distribution network in the U.S. so they sell directly to Jordache, which is less gun-shy than other buyers and 2) the duty on their main product -- jeans -- is around 15 percent, whereas the duty on synthetics - the focus of many Malagasy factories -- is around 30 percent. According to the manager, their margins are less than 15 percent, so if AGOA were cancelled, they would assume a net loss. If there is no indication of AGOA being retained in the next two months, they will rethink their 2010 strategy. They have over USD 30 million in assets at risk, as well as 4,000 jobs. If they were to relocate, they wouldn't stay in the AGOA area. According to the manager, Jordache can source from Bangladesh more cheaply even with the duty.

¶6. (SBU) Mazava (3.4% of AGOA exports in May): Mazava is partially U.S.-owned with investment from the company Winds. Mazava is opening a new factory in Tanzania, rather than Madagascar. The company also has a factory in Mauritius. If there is no announcement concerning AGOA renewal by the end of July, they will reduce their Madagascar operations by half to assuage their concerned customers. If AGOA is cancelled, they will move most of their Madagascar business to Tanzania or Mauritius.

¶7. (SBU) Cottonline (4% of AGOA exports in May): Cottonline is an American joint-venture with investment from Martin Trust that employs 1,850 workers. It exports 40% to the U.S., with the remainder to the EU and SADC countries. The company estimates an almost 30 percent reduction in its production for June - August
¶2009. It has not yet received orders for September - November. According to factory manager Michael Appadoo, they will downsize, and potentially close, if AGOA and the US market are lost.

¶8. (SBU) Nova Knits: Nova Knits is American-owned. They are awaiting the AGOA eligibility decision later this year and will lay off workers at that time if the decision is negative.

Other Main Exporters

¶9. (SBU) Prime View (15.5% of AGOA exports in May): Prime View exports 100 percent of their garments to the U.S. market. Their orders from the U.S. have already begun declining, and if AGOA is not extended, they will relocate to another country, according to

the manager Mr. Li.

¶10. (SBU) Kwok Hing (7.8%) and Kam Hing (2.9% of AGOA exports in May): They have not yet made any decisions on downsizing or relocating, but believe most companies will do so if AGOA is suspended. Their buyers are pushing them to guarantee that they will pay any duties imposed if AGOA is suspended.

¶11. (SBU) Grove (7.7% of AGOA exports in May): Grove exports 100% to the U.S. They have orders confirmed through the third quarter, but not until the end of the year. They have no plans to close at this time, but if Madagascar is suspended from AGOA, the company will close and fire all workers.

¶12. (SBU) Ariva (6.7%): Their buyers have lost confidence in Madagascar due to repetition of political crises. Prior to the crisis, the company planned to enlarge its operations and aimed to work with Mazava, Puma, and Adidas, but their plans were cancelled due to the crisis. They have reduced their number of workers by half. They have also been plagued by corruption at customs since the change of government. If AGOA is suspended they will further downsize and likely close.

¶13. (SBU) Glory (6.5%): Between May and December 2008, the company laid off 700 workers. Between January and mid-May 2009, they received some orders and recruited 150 new employees, who have subsequently been laid off. They were the subject of an audit at the beginning of July by their buyer in New York. Ongoing operations are subject to the outcome of the audit, expected in mid-July, but as they have no orders currently they will almost certainly close soon.

¶14. (SBU) Griffy (5%): They have orders only through August. They employ 2,600 workers and have no plans to reduce the work force or shut down at this time, but they have eliminated overtime work. As their orders are all from the U.S., if AGOA is suspended they will be forced to close. They are also concerned about the possibility of a strike or port closure affecting their shipments.

Comment

¶15. (SBU) Based on our soundings, the loss of AGOA eligibility will lead to the closure of many of Madagascar's garment manufacturers, and the subsequent unemployment of tens of thousands of Malagasy workers in the capital area. There are no other formal sector jobs on hand to absorb this excess labor; reliable government statistics are not available, but a reasonable estimate puts urban unemployment rates already at over 30 percent. A large uptick in urban unemployment would further destabilize the political situation, exacerbate a humanitarian crisis that is already evident, and worsen rising crime levels in a country where the average worker's margins are already very thin. The impact on US-Malagasy bilateral relations will also be significant, notwithstanding our ongoing efforts to put the blame for this crisis where it belongs.

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